

State of Alaska FY2006 Governor's Operating Budget

**Dept. of Commerce, Community, and Economic Dev.
Insurance Operations
RDU/Component Budget Summary**

RDU/Component: Insurance Operations*(There is only one component in this RDU. To reduce duplicate information, we did not print a separate RDU section.)***Contribution to Department's Mission**

To assure competitive, viable, ethical and lawful insurance is available to Alaskans.

Core Services

- Licensing
- Compliance
- Filing Approval
- Public Information

| End Results | Strategies to Achieve Results |
|---|--|
| <p>A: Insurance companies and persons transacting insurance comply with Alaska laws and are financially solvent</p> <p><u>Target #1:</u> No domestic insurance company becomes insolvent <u>Measure #1:</u> Number of insolvent insurers</p> <p><u>Target #2:</u> 60% of alleged violations of Alaska insurance laws and statutes are investigated <u>Measure #2:</u> % finalized annually</p> | <p>A1: Timely financial examinations of domestic insurers</p> <p><u>Target #1:</u> 100% of financial examinations of domestic insurance companies are done every three years <u>Measure #1:</u> % completed every three years</p> <p>A2: Efficient licensing of both insurers and persons transacting insurance business</p> <p><u>Target #1:</u> Producer applications processed within 10 days <u>Measure #1:</u> Average number of days for processing</p> <p><u>Target #2:</u> 80% of insurance company applications issued within 60 days <u>Measure #2:</u> % of applications issued within 60 days</p> <p><u>Target #3:</u> Surplus lines applications are approved or denied within 90 days of receipt <u>Measure #3:</u> % completed within 90 days</p> <p>A3: Thorough review of alleged violations of Alaska statutes</p> <p><u>Target #1:</u> 100% of alleged violations of Alaska statutes undergo case assessment and investigation when warranted by fact scenarios <u>Measure #1:</u> % of case assessments and investigations performed</p> <p>A4: Market conduct examinations are used to assess market practices</p> |

| | <p><u>Target #1:</u> Perform market conduct examinations and market analysis to resolves compliance and market access issues.</p> <p><u>Measure #1:</u> Number of compliance issues that are resolved through market conduct examinations and market analysis.</p> <p>A5: Turn insurer prospects into active insurers</p> <p><u>Target #1:</u> 1 new insurer in the marketplace each year</p> <p><u>Measure #1:</u> # of new active insurers in the Alaska marketplace</p> <p>A6: Enhancement of capacity to receive electronic filings</p> <p><u>Target #1:</u> Reduce time needed to receive electronic filings</p> <p><u>Measure #1:</u> % reduction in time needed to process electronic filings</p> <p>A7: Develop an insurance company self-certification program that rate and policy form filings comply with Alaska laws and regulations</p> <p><u>Target #1:</u> Develop state specific filing checklists for self-certification of all product lines</p> <p><u>Measure #1:</u> % of companies making filings accompanied by self-certification forms</p> |
|---|--|
| End Results | Strategies to Achieve Results |
| <p>B: Competitive, up-to-date insurance products are available to Alaskan consumers</p> <p><u>Target #1:</u> No more than 65% of the market is shared by the top 5 insurers</p> <p><u>Measure #1:</u> % of market share of top 5 insurers</p> <p><u>Target #2:</u> 80% of rate & policy form filing approvals completed within 30 days</p> <p><u>Measure #2:</u> % increase in the number of filing approvals completed within 30 days</p> | <p>B1: Alaskan consumers are aware and knowledgeable about insurance</p> <p><u>Target #1:</u> 80% of consumer guides updated within one year of previous version</p> <p><u>Measure #1:</u> % of consumer guides updated within one year</p> <p>B2: Conduct public outreach programs to provide educational assistance in understanding insurance products and processes</p> <p><u>Target #1:</u> 6 outreach programs conducted annually</p> <p><u>Measure #1:</u> Number of programs conducted annually</p> |

Major Activities to Advance Strategies

- | | |
|---|--|
| <ul style="list-style-type: none"> • ACTIVITIES FOR LICENSING STRATEGIES • Implement an imaging process • Create a committee to streamline forms and fee structures • Review and revise company licensing instructions on forms and website for clarity, completeness and add FAQ. • Quarterly meetings with AG staff to review current licensing actions/issues | <ul style="list-style-type: none"> • ACTIVITIES FOR FILING • Develop a guide for insurers with Alaska specific information • Staff participation in NAIC meetings, seminars and other related training • Visit insurers to present favorable market conditions and statistics • Participate in the NAIC "market analysis" project to modernize our approach to market oversight |
|---|--|

Major Activities to Advance Strategies

- Implement payment process for credit card payments or EFT
- Implement an electronic filing process for nonresident applications and renewals
- Implement an electronic program filing process for continuing education
- Implement an electronic process that will automatically search for adverse administrative actions taken against persons by other states prior to issuance and renewal of licenses
- ACTIVITIES FOR COMPLIANCE
- Implement early planning sessions for both financial and market conduct examinations
- Perform examinations both as desk audits and on-site audits to confirm compliance
- Implement an integrated complaint and investigation tracking system
- Training for investigator unit with various law enforcement agencies
- Fund an assistant AG with the criminal division to work with the Division of Insurance
- Perform onsite/desk audits of insurers and surplus lines brokers for premium tax and fee payments
- Monitor financial condition of both admitted and surplus lines insurers by review of annual statements for factors outside the norm
- Require companies to use filing checklists
- Implement a process for desk audits or on-site audits to improve filing quality
- Increase access to the NAIC data base for ability to utilize the national tools available
- Investigate a new connection to the SERFF to allow filings analysts to efficiently process filings
- Perform assessment of a Surplus Lines Association through a cost/benefit analysis
- ACTIVITIES FOR PUBLIC INFORMATION
- Develop a frequently asked questions format for publication on the web site and paper distribution
- Prepare Division annual report
- Prepare updates to the various consumer guides
- Visit consumer groups to do informational meetings on topics of current interest
- Develop a public information officer to provide consistent information to the public and oversee division website
- Update the public request for information process to provide efficient responses and to provide documentation of compliance with deadlines

FY2006 Resources Allocated to Achieve Results

FY2006 Component Budget: \$5,533,400

Personnel:

| | |
|--------------|-----------|
| Full time | 57 |
| Part time | 0 |
| Total | 57 |

Performance Measure Detail

A: Result - Insurance companies and persons transacting insurance comply with Alaska laws and are financially solvent

Target #1: No domestic insurance company becomes insolvent

Measure #1: Number of insolvent insurers

Number of insolvent insurers.

| Year | YTD |
|------|-----|
| 2003 | 0 |
| 2004 | 0 |

Target #2: 60% of alleged violations of Alaska insurance laws and statutes are investigated

Measure #2: % finalized annually

Percentage market share of top 5.

| Year | YTD |
|------|-----|
| 2003 | 0 |
| 2004 | 0 |

A1: Strategy - Timely financial examinations of domestic insurers

Target #1: 100% of financial examinations of domestic insurance companies are done every three years

Measure #1: % completed every three years

Percent of completed financial examinations for every three years.

| Year | YTD |
|------|-----|
| 2003 | 100 |
| 2004 | 100 |

A2: Strategy - Efficient licensing of both insurers and persons transacting insurance business

Target #1: Producer applications processed within 10 days

Measure #1: Average number of days for processing

Percentage processed

| Year | YTD |
|------|-----|
| 2003 | 15 |
| 2004 | 15 |

Target #2: 80% of insurance company applications issued within 60 days

Measure #2: % of applications issued within 60 days

Percent issued within 60 days

| Year | YTD |
|------|-----|
| 2003 | 56 |
| 2004 | 74 |

Target #3: Surplus lines applications are approved or denied within 90 days of receipt

Measure #3: % completed within 90 days

Percentage completed in 90 days

| Year | YTD |
|------|-----|
| 2003 | 86 |
| 2004 | 75 |

A3: Strategy - Thorough review of alleged violations of Alaska statutes

Target #1: 100% of alleged violations of Alaska statutes undergo case assessment and investigation when warranted by fact scenarios

Measure #1: % of case assessments and investigations performed

Percentage of case assessments

| Year | YTD |
|------|-----|
| 2003 | 50 |
| 2004 | 55 |

A4: Strategy - Market conduct examinations are used to assess market practices

Target #1: Perform market conduct examinations and market analysis to resolves compliance and market access issues.

Measure #1: Number of compliance issues that are resolved through market conduct examinations and market analysis.

Number of compliance issues resolved

| Year | YTD |
|------|-----|
| 2003 | 0 |
| 2004 | 3 |

A5: Strategy - Turn insurer prospects into active insurers

Target #1: 1 new insurer in the marketplace each year

Measure #1: # of new active insurers in the Alaska marketplace

Number of active insurers

| Year | YTD |
|------|-----|
| 2003 | 0 |
| 2004 | 1 |

A6: Strategy - Enhancement of capacity to receive electronic filings

Target #1: Reduce time needed to receive electronic filings

Measure #1: % reduction in time needed to process electronic filings

Percentage reduction in time to process electronic filings

| Year | YTD |
|------|-----|
| 2003 | 0 |
| 2004 | 0 |

A7: Strategy - Develop an insurance company self-certification program that rate and policy form filings comply with Alaska laws and regulations

Target #1: Develop state specific filing checklists for self-certification of all product lines

Measure #1: % of companies making filings accompanied by self-certification forms

Percentage of companies using self-certification forms

| Year | YTD |
|------|-----|
| 2003 | 0 |
| 2004 | 0 |

B: Result - Competitive, up-to-date insurance products are available to Alaskan consumers

Target #1: No more than 65% of the market is shared by the top 5 insurers

Measure #1: % of market share of top 5 insurers

Percentage market share of top 5.

| Year | YTD |
|------|-----|
| 2003 | 0 |
| 2004 | 0 |

Target #2: 80% of rate & policy form filing approvals completed within 30 days

Measure #2: % increase in the number of filing approvals completed within 30 days

Percentage of approvals within 30 days

| Year | YTD |
|------|-----|
| 2003 | 0 |
| 2004 | 30 |

B1: Strategy - Alaskan consumers are aware and knowledgeable about insurance

Target #1: 80% of consumer guides updated within one year of previous version

Measure #1: % of consumer guides updated within one year

Percentage of consumer guides updated

| Year | YTD |
|------|-----|
| 2003 | 80 |
| 2004 | 80 |

B2: Strategy - Conduct public outreach programs to provide educational assistance in understanding insurance products and processes

Target #1: 6 outreach programs conducted annually

Measure #1: Number of programs conducted annually

Number of programs conducted

| Year | YTD |
|------|-----|
| 2003 | 0 |
| 2004 | 6 |

Key Component Challenges

The Division will continue to investigate alleged or suspected violations of insurance laws. Timely completion of investigations and either closure of the investigation or additional referrals for administrative or criminal actions is a priority requiring education and cooperation from other state agencies.

The State of Alaska has an increasing lack of a healthy, competitive insurance market place. The workers compensation market is dominated by relatively few carriers which puts our state at risk of losing a viable option for employers to obtain a statutorily mandated coverage. The homeowner's market is fast becoming difficult with two carriers writing 65% of the business and seeking to reduce market share. This, in turn, creates pressure on the real estate industry as sales of property and re-financing depends on the availability of insurance coverage to satisfy the

lenders. One key element to be developed will be regulatory modernization to keep Alaska consistent with regulatory practices across the country.

In the summer of 2003 the Division began a business needs analysis project to address internal and external communication and processes issues. The first phase of the project has been completed with analysis of current work flows and development of optimal processes. An internal team is in place to begin implementation of the needs identified in the analysis phase. Resources, both staff and financial, to move this project forward will be key in developing further efficiencies in Division operations.

The Division has initiated several projects which seek to review the practices of various components of the industry which is regulated. Included in the investigations are sales practices of agents and brokers, licensing of individuals selling various products in the auto industry and sales and marketing practices in the title insurance industry. Assuring that consumers are adequately protected is the goal of the reviews of the current practices.

Oversight of both the financial solvency and the underwriting and claims practices of insurance companies is a primary regulatory function. Monitoring both the financial performance and the practices of the companies who write business in Alaska requires efficient utilization of resources.

Significant Changes in Results to be Delivered in FY2006

No significant changes.

Major Component Accomplishments in 2004

Implemented a procedural change to allow a company to electronically file company appointments and terminations with our office.

Expanded search capabilities on the division's web site to provide consumers the capability to extract various producer licensing information by class of license or a particular city.

Issued or renewed 12,736 licenses to persons selling insurance in Alaska, and processed over 12,100 company appointments and 7,192 terminations of company appointments

Approved Surplus Lines Insurers-12 and Purchasing Groups Registered-13.

Suspended four Alaska certificates of authority issued to companies continued suspension of 18 and revoked eight.

Maintained accreditation from the NAIC through the annual self-evaluation affirming that the Division meets strict national standards for solvency regulation.

Licensed 33 insurance companies by issuing a certificate of authority, registered seven risk retention groups, approved two accredited reinsurers, and licensed two automobile service corporations.

Collected \$44,093,377 in premium taxes and fees.

Opened and investigated 460 consumer complaints. In addition handled over 6,300 telephone and e-mail consumer insurance inquiries.

Took action that resulted in additional payments of \$317,319 to consumers in calendar year 2003.

Opened 47 civil/criminal investigations, closed 26 with 20 cases being referred to prosecutors.

Issued sixteen bulletins, eight regulatory orders, eighteen disciplinary orders, twenty-six suspension and revocation orders and filed two regulations

Received 5,335 insurance contract and premium rate filings from July 1, 2003 to June 30, 2004. Of these filings, 3,160

were approved and 311 filings were disapproved by the division or withdrawn by the company because they did not comply with Alaska laws. The remainder, 1,864, are under review. Filing review includes significant analysis of insurance policy and rate-related laws and issues to ensure that insurance contracts and associated premiums meet Alaska's statutory requirements.

Published updated Medicare Supplement Insurance Rate Guide and Automobile Insurance Guide.

Examined and investigated serious allegations against a licensed insurance agency in Anchorage resulting in the identification and protection of 15 policyholders of the agency.

Conducted financial examinations on a total of six Alaska domestic insurers. Of the six, three were completed and two were started during the period.

Examined and presented at hearing regulatory evaluation of proposed change of corporate structure and control of Alaska's largest health insurer.

Statutory and Regulatory Authority

AS 21 Insurance
AAC 3 21 to 31 Insurance

Contact Information

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Insurance Operations Component Financial Summary

All dollars shown in thousands

| | FY2004 Actuals | FY2005 Management Plan | FY2006 Governor |
|---------------------------------|----------------|---------------------------|-----------------|
| Non-Formula Program: | | | |
| Component Expenditures: | | | |
| 71000 Personal Services | 3,507.7 | 3,631.9 | 3,843.1 |
| 72000 Travel | 177.5 | 187.5 | 187.5 |
| 73000 Services | 1,139.2 | 1,447.5 | 1,408.3 |
| 74000 Commodities | 44.1 | 59.2 | 59.2 |
| 75000 Capital Outlay | 16.5 | 35.3 | 35.3 |
| 77000 Grants, Benefits | 0.0 | 0.0 | 0.0 |
| 78000 Miscellaneous | 0.0 | 0.0 | 0.0 |
| Expenditure Totals | 4,885.0 | 5,361.4 | 5,533.4 |
| Funding Sources: | | | |
| 1156 Receipt Supported Services | 4,885.0 | 5,361.4 | 5,533.4 |
| Funding Totals | 4,885.0 | 5,361.4 | 5,533.4 |

Estimated Revenue Collections

| Description | Master Revenue Account | FY2004 Actuals | FY2005 Manageme nt Plan | FY2006 Governor |
|---------------------------------|------------------------------|-------------------|-------------------------------|--------------------|
| Unrestricted Revenues | | | | |
| Receipt Supported Services | 51073 | 4,145.8 | 0.0 | 0.0 |
| Unrestricted Fund | 68515 | 44,093.4 | 44,100.0 | 44,100.0 |
| Unrestricted Total | | 48,239.2 | 44,100.0 | 44,100.0 |
| Restricted Revenues | | | | |
| Receipt Supported Services | 51073 | 4,885.0 | 5,361.4 | 5,533.4 |
| Restricted Total | | 4,885.0 | 5,361.4 | 5,533.4 |
| Total Estimated Revenues | | 53,124.2 | 49,461.4 | 49,633.4 |

**Summary of Component Budget Changes
From FY2005 Management Plan to FY2006 Governor**

All dollars shown in thousands

| | <u>General Funds</u> | <u>Federal Funds</u> | <u>Other Funds</u> | <u>Total Funds</u> |
|--|----------------------|----------------------|--------------------|--------------------|
| FY2005 Management Plan | 0.0 | 0.0 | 5,361.4 | 5,361.4 |
| Adjustments which will continue current level of service: | | | | |
| -FY 05 Bargaining Unit Contract Terms: GGU | 0.0 | 0.0 | 28.3 | 28.3 |
| -FY06 Cost Increases for Bargaining Units and Non-Covered Employees | 0.0 | 0.0 | 97.9 | 97.9 |
| Proposed budget increases: | | | | |
| -Administrative Hearings/Office Sec 2 Ch 158 SLA2004 P40 L25 (SB203) | 0.0 | 0.0 | 45.8 | 45.8 |
| FY2006 Governor | 0.0 | 0.0 | 5,533.4 | 5,533.4 |

Insurance Operations Personal Services Information

| Authorized Positions | | | Personal Services Costs | |
|----------------------|---|----------------------------------|----------------------------------|------------------|
| | <u>FY2005</u> <u>Management</u> <u>Plan</u> | <u>FY2006</u> <u>Governor</u> | | |
| Full-time | 57 | 57 | Annual Salaries | 2,826,526 |
| Part-time | 0 | 0 | COLA | 36,435 |
| Nonpermanent | 0 | 0 | Premium Pay | 0 |
| | | | Annual Benefits | 1,409,056 |
| | | | <i>Less 6.91% Vacancy Factor</i> | (295,317) |
| | | | Lump Sum Premium Pay | 0 |
| Totals | 57 | 57 | Total Personal Services | 3,976,700 |

Position Classification Summary

| Job Class Title | Anchorage | Fairbanks | Juneau | Others | Total |
|-----------------------------|-----------|-----------|-----------|----------|-----------|
| Accounting Clerk II | 0 | 0 | 1 | 0 | 1 |
| Accounting Tech I | 0 | 0 | 1 | 0 | 1 |
| Actuary | 0 | 0 | 2 | 0 | 2 |
| Administrative Clerk II | 3 | 0 | 2 | 0 | 5 |
| Administrative Clerk III | 0 | 0 | 4 | 0 | 4 |
| Administrative Manager III | 0 | 0 | 1 | 0 | 1 |
| Analyst/Programmer III | 1 | 0 | 0 | 0 | 1 |
| Analyst/Programmer IV | 0 | 0 | 2 | 0 | 2 |
| Analyst/Programmer V | 0 | 0 | 1 | 0 | 1 |
| Consmr Complt Spec/Ins | 3 | 0 | 0 | 0 | 3 |
| Dep Dir Insurance | 0 | 0 | 1 | 0 | 1 |
| Division Director | 1 | 0 | 0 | 0 | 1 |
| Ins Financial Exam I | 2 | 0 | 1 | 0 | 3 |
| Ins Financial Exam II | 3 | 0 | 0 | 0 | 3 |
| Ins Financial Exam III | 1 | 0 | 0 | 0 | 1 |
| Insurance Analyst I | 0 | 0 | 2 | 0 | 2 |
| Insurance Analyst II | 2 | 0 | 4 | 0 | 6 |
| Insurance Analyst III | 1 | 0 | 2 | 0 | 3 |
| Insurance Analyst IV | 1 | 0 | 1 | 0 | 2 |
| Insurance Licensing Exam I | 0 | 0 | 4 | 0 | 4 |
| Insurance Licensing Exam II | 0 | 0 | 1 | 0 | 1 |
| Investigator II | 1 | 0 | 0 | 0 | 1 |
| Investigator III | 2 | 0 | 0 | 0 | 2 |
| Investigator IV | 1 | 0 | 0 | 0 | 1 |
| Paralegal II | 1 | 0 | 0 | 0 | 1 |
| Prog Coordinator | 0 | 0 | 1 | 0 | 1 |
| Records & Licensing Spvr | 0 | 0 | 1 | 0 | 1 |
| Revenue Auditor III | 0 | 0 | 1 | 0 | 1 |
| Secretary | 1 | 0 | 0 | 0 | 1 |
| Totals | 24 | 0 | 33 | 0 | 57 |